

A Guide to

**Roads and
Road Funding**

Provided by:

**The Township Relations Committee of
The County Road Association of Michigan
(CRAM)**

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Part I: Who is Responsible for Michigan's Roads?

The Three Levels of Road Jurisdiction in Michigan:

In order to understand the road issues in Michigan, we need to first understand who is responsible for the roads. In Michigan, all roads fall into one of three categories of road jurisdiction:

1. **State highways:** MDOT – 9,679 miles (8%)
2. **County roads:** County road commissions - 90,040 miles (75%)
3. **City or village streets:** Cities and villages – 20,831 miles (17%)

The following pages provide a detailed look at each of these levels of jurisdiction.

Note: Michigan has the eighth largest public road system in the nation, and the sixth largest local (county, city and village roads) system. Michigan's state highway system, however, is the 33rd largest in the nation, well below average.

State Highways

State highways fall under the jurisdiction of the Michigan Department of Transportation (MDOT). Included under this heading are all highways with letters in their names, such as “M”, “US” or “I”. Examples include M-55, M-37, US-27, US-12, I-75, I-94, etc. Generally, all freeways fall under MDOT jurisdiction, as do many major inter-county roads.

County Roads

County road commissions have jurisdiction over all roads, except state highways, in all townships in the state. Additionally, some county road commissions have jurisdiction over some of the primary roads in the cities and villages.

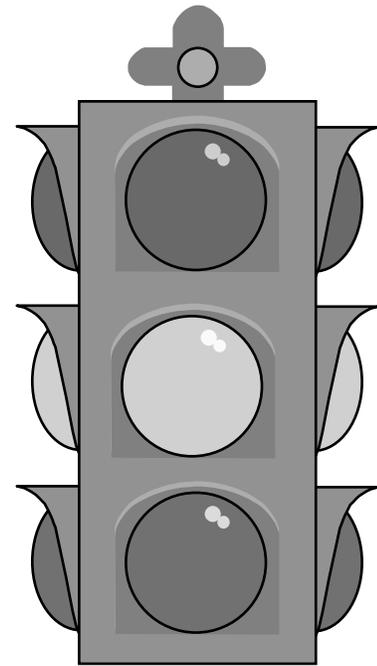
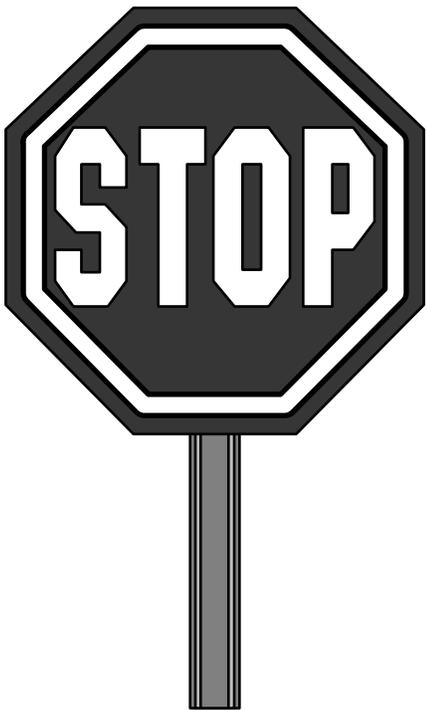
City & Village Streets

Over the years, the cities and villages in Michigan have taken jurisdiction over some, or in some cases, all of the roads within their boundaries. When a township, or part of a township incorporates and becomes a city or village, the road commission has one year in which to turn over jurisdiction of county roads to the new city or village. After that first year, jurisdiction of any road may be transferred either way, if agreed upon by both parties.

The cities and villages have jurisdiction over all residential or subdivision streets within their boundaries. Whether a city or village or the road commission has jurisdiction over major streets within the community depends upon a variety of factors and differs from community to community.

Part II:

Why are Michigan's Roads in the Condition They are in, and Why are Other States' Roads in Better Shape?



The History of Road Funding in Michigan

In order to understand where Michigan is today in terms of road funding, it is necessary to understand where we have been in the past.

When we look at Michigan's record for the last 40 years, we find that Michigan has done a pretty decent job of funding such important areas as health, education and welfare. Roads, unfortunately, are a different story.

As the chart below indicates, since at least 1964, roads have been Michigan's "forgotten priority" — Michigan has continuously ranked in the bottom nine states in per capita state and local expenditures on roads. In fact, in 1992, Michigan ranked dead last in the nation in spending on roads based on vehicle miles of travel. Even after the 4-cent gas tax increase in 1997, Michigan still ranks in the bottom seven states.

Given this track record, it should be no surprise that Michigan's roads are in worse shape than those in other states. Compounding this situation is the fact that many of the states that have for years ranked higher than Michigan in per capita road spending don't have the freeze/thaw cycles that Michigan experiences each spring and fall, and which take a tremendous toll on paved road surfaces. Nor do road agencies in many of these states spend millions of dollars on snow plowing and salting.

Per Capita State & Local Expenditures (Michigan's Rank in the Nation)

| <u>Expenditures</u> | <u>1964</u> | <u>1974</u> | <u>1984</u> | <u>1988</u> | <u>1992</u> | <u>2000*</u> |
|---------------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Health | 5 | 8 | 9 | 3 | 12 | 21 |
| Education | 11 | 7 | 10 | 7 | 11 | 3 |
| Welfare | 31 | 5 | 3 | 8 | 17 | 24 |
| Roads | 43 | 44 | 42 | 44 | 49 | 44 |

Source: U.S. Census Bureau

* 2000 = latest data available

A 2004 *Detroit News* analysis of US Department of Transportation data indicated that Michigan's roads were the third worst in the nation: Only Massachusetts and Hawaii had a higher percentage of rough roads.

The *News* also found that the condition of Michigan's roads is getting worse. In 1998, Michigan was not even in the top 10 worst states in terms of road condition.

Source: "Michigan roads rank third worst in US," *Detroit News*, June 24, 2004

The Bottom Line:

The condition of Michigan's roads won't catch up with that of roads in other states as long as Michigan ranks in the bottom nine states in per capita road funding.

State Road Funds



The largest single source of road funding in Michigan is the state-collected gas tax. Historically, Michigan's gas tax has been among the lowest in the nation, making the gas tax rate a major contributor to the state's poor showing in per capita road funding comparisons.

The state gas tax was last raised 10 years ago in 1997, when it was increased from 15 cents per gallon to 19 cents. Prior to 1997, it had not been increased since 1984, when it rose from 13 to 15 cents per gallon. In 1983, it was increased from 11 to 13 cents.

In 1997:

Responding to the mid-1990s road-funding crisis, the Michigan Legislature stepped up to the plate and raised the Michigan gas tax from 15 cents per gallon to 19 cents per gallon in 1997.

What did this increase do to Michigan's rank among other states in terms of the gas tax? The table below tells the story: Even with the increase, Michigan's fuel tax rates remain below the national average. Remember this is compounded by the fact that Michigan's per capita road funding has lagged behind most of the rest of the nation for at least 40 years.

State Fuel Tax Rates (2005)

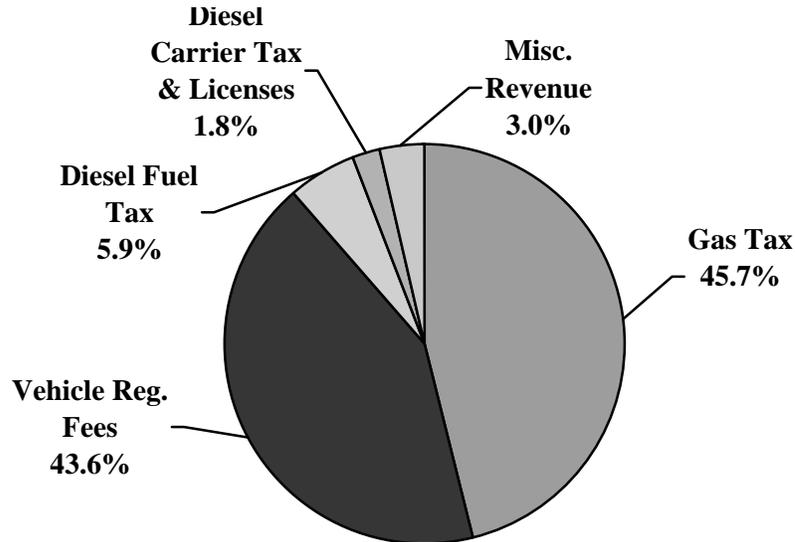
| <u>State</u> | <u>Gas</u> | <u>Diesel</u> | <u>State</u> | <u>Gas</u> | <u>Diesel</u> |
|---------------|------------|---------------|------------------------|------------|---------------|
| Rhode Island | 31 | 31 | Iowa | 20.3 | 2.5 |
| Wisconsin | 28.5 | 28.5 | Vermont | 20 | 26 |
| Washington | 28 | 28 | Louisiana | 20 | 20 |
| Montana | 27 | 27.75 | Minnesota | 20 | 20 |
| Pennsylvania | 26.2 | 31.2 | Texas | 20 | 20 |
| Nebraska | 25.7 | 25.7 | Illinois | 19.8 | 22.3 |
| W. Virginia | 25.35 | 25.35 | New Hamp. | 19.5 | 19.5 |
| Idaho | 25 | 25 | <u>Michigan</u> | 19 | 15 |
| Connecticut | 25 | 26 | New Mexico | 18.9 | 19.9 |
| Maine | 24.6 | 25.7 | Mississippi | 18.4 | 18.4 |
| N. Carolina | 24.55 | 24.55 | Alabama | 18 | 19 |
| Utah | 24.5 | 24.5 | Arizona | 18 | 18 |
| Nevada | 24 | 27 | California | 18 | 18 |
| Kansas | 24 | 26 | Indiana | 18 | 16 |
| Oregon | 24 | 24 | Virginia | 17.5 | 16 |
| Ohio | 24 | 24 | Missouri | 17.03 | 17.03 |
| Maryland | 23.5 | 24.25 | Oklahoma | 17 | 14 |
| Delaware | 23 | 22 | Kentucky | 16.4 | 13.4 |
| New York | 22.6 | 20.85 | Hawaii | 16 | 16 |
| S. Dakota | 22 | 22 | S. Carolina | 16 | 16 |
| Colorado | 22 | 20.5 | New Jersey | 14.5 | 17.5 |
| Arkansas | 21.5 | 22.5 | Florida | 14.3 | 27 |
| Tennessee | 21.4 | 18.4 | Wyoming | 14 | 14 |
| Massachusetts | 21 | 21 | Alaska | 8 | 8 |
| N.Dakota | 21 | 21 | Georgia | 7.5 | 7.5 |



Note: Some states have indexed their gas tax rate to the rate of inflation. That way, the gas tax rate goes up automatically to keep up with the increasing price of road repairs. Two examples are Wisconsin and North Carolina.

Besides the Gas Tax, What are the Other Sources of State Road Funds?

In addition to the state-collected gas tax, there are a number of other state-collected revenues that contribute to road funding in Michigan. The pie chart below shows those sources and indicates what percentage of total state road funds they account for (as of 2006).



It is interesting to note that Michigan is also one of only seven states in the nation that applies sales tax (6%) to gas and diesel sales. None of the revenue from that sales tax goes to the roads.

How are State-Collected Road Funds Distributed?

How are the state-collected revenues divided among the state, county road commissions and cities & villages? The state Legislature addressed this question through a road funding formula that is spelled out in Michigan Public Act 51.

In the act, the Legislature established a single “pot” for state-collected road funds known as the Michigan Transportation Fund (MTF). It then created a formula for the distribution of the funds in the MTF. According to the formula, money is first taken off the top of the MTF for a number of items including the Bridge Fund and mass transit (see complete list on the next page). The formula then calls for 39.1% of the remaining money to go to MDOT (which has jurisdiction over 8% of Michigan’s roads), 39.1% to go to county road commissions (which have jurisdiction over 75% of Michigan’s roads) and 21.8% to go to cities and villages (which have jurisdiction over 17% of Michigan’s roads).

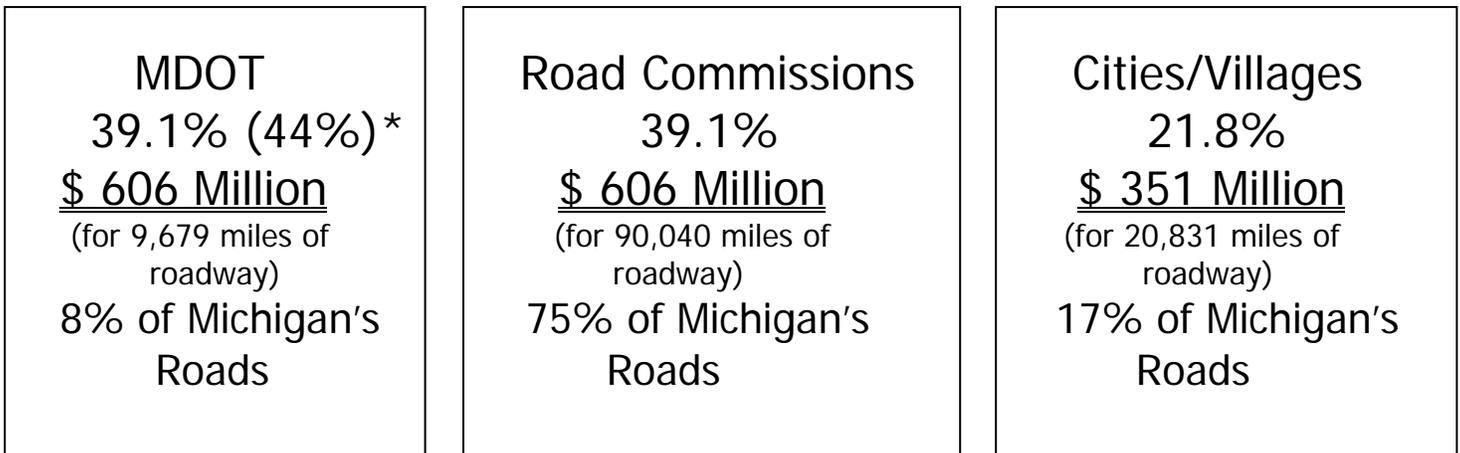
The MTF distribution formula is shown on the next page.

Michigan Transportation Fund (MTF) Distribution

\$1.98 BILLION (FY 2006)

| | | | | |
|----------------------------|----|-----|---------|--------|
| Administration ----- | \$ | 122 | Million | (6.1%) |
| Incl: Recreation ----- | \$ | 18 | Million | (0.9%) |
| Critical Bridge Fund ----- | \$ | 7 | Million | (0.6%) |
| Railroad Crossing ----- | \$ | 3 | Million | (0.2%) |
| Economic Dev. Fund ----- | \$ | 40 | Million | (2.0%) |
| Local Road Program ----- | \$ | 33 | Million | (1.7%) |
| Mass Transit ----- | \$ | 166 | Million | (8.4%) |
| MDOT Bridges ----- | \$ | 50 | Million | (2.5%) |
| MDOT Debt Service ----- | \$ | 43 | Million | (2.1%) |

Remainder: \$ 1.6 Billion



* Note that while MDOT receives 39.1 percent of the MTF funds according to the formula, when you add in the fund deductions that go to MDOT, such as the half-penny dedicated to MDOT bridges and the 1997 truck registration fee increase, MDOT actually receives 44 percent of MTF funds.

What's Wrong with the MTF?

As shown previously, Michigan's gas tax, which makes up the largest single portion of MTF dollars, is lower than the majority of other states in the nation (it ranks 34th). Michigan's diesel tax rate is even worse, ranking 43rd in the nation.

But it's not just that Michigan's fuel tax rates are lower than much of the rest of the nation. These revenues also are not keeping up with inflation. In fact, in some years we're even seeing a decrease in fuel tax revenues.

Between 1998 - 2006, MTF grew **a net total of 11%** statewide

- This is significantly less than the combined rate of inflation for these nine years.

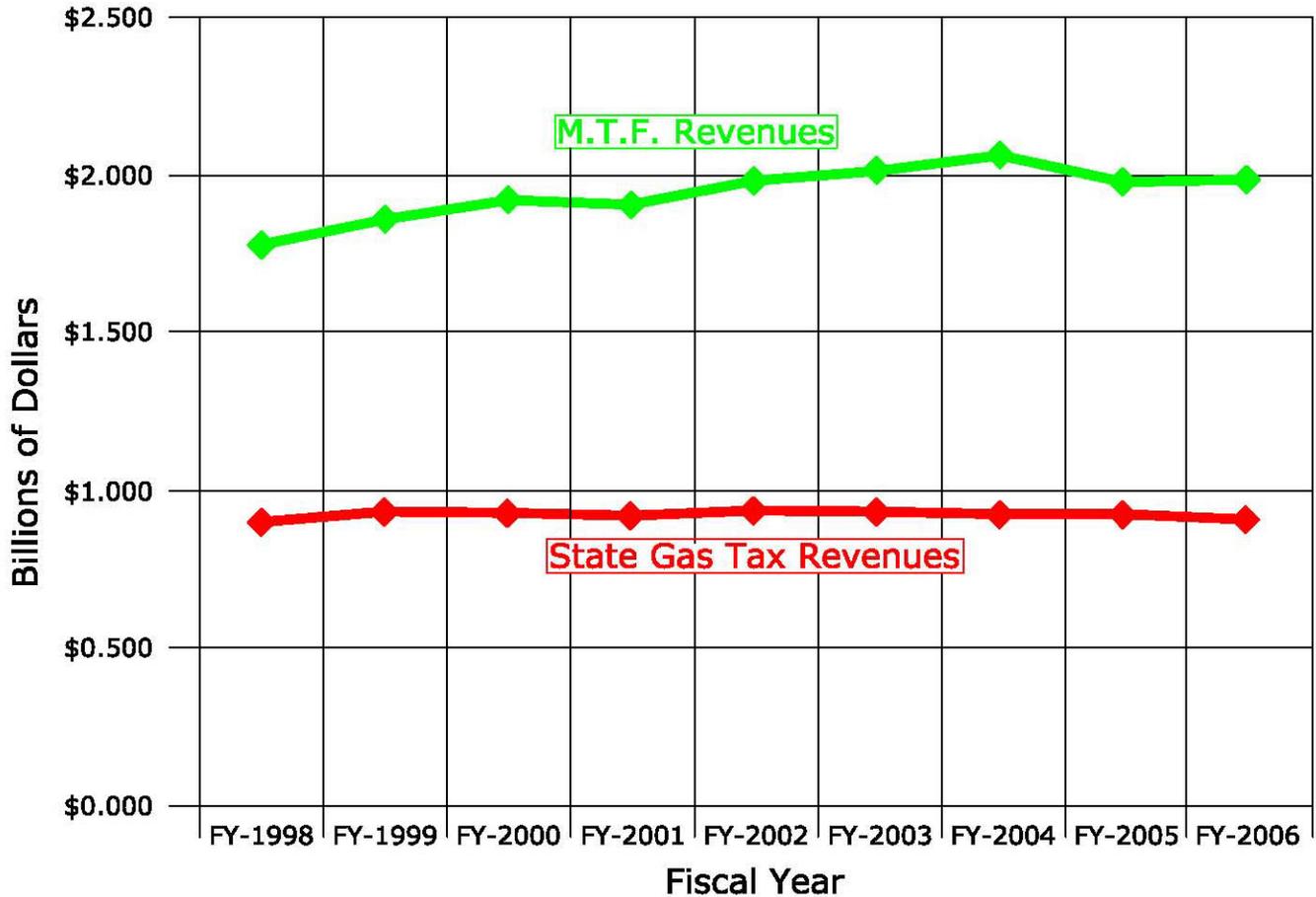
But that's not the whole story. Many of the costs associated with critical road maintenance activities are increasing far faster than the consumer rate of inflation. Here are some examples from one Southeast Michigan road commission for the same period:

| <u>Item</u> | <u>% increase, '98-'06</u> |
|--------------------------------|----------------------------|
| 12-yard truck (purchase price) | 65% |
| Diesel fuel | 265% |
| Gasoline | 255% |
| Asphalt | 47% |
| Gravel | 20% |
| Guardrail & hardware | 113% |
| Plow blades | 86% |
| U-channel sign posts | 111% |
| Traffic signal cable | 140% |

NOTE: The gas tax is a "flat" tax: It does not increase with the price of gas or with inflation. That means, assuming gas sales remain fairly steady, each year the gas tax revenues have less and less buying power. That's because no additional dollars are generated, while all the costs these revenues pay for increase from year to year. It also means that road agencies do not receive additional funding when gas prices go up.

Statewide MTF and Gas Tax Growth

The chart below shows that both MTF revenues as well as the gas tax revenues have both been flat for the last nine years.



During this period, MTF increased an average of 1.4 percent per year. During the same period the gas tax grew by only 0.1 percent per year on average. Both were far less than the rate of inflation.

Federal Funds



Most road agencies in Michigan rely on federal road funding, generated by the 18.4 cent federal gas tax, for major road improvements, such as road widening projects. While federal funds coming to Michigan have increased slightly in the last couple of years, the increase has been minimal for most road commissions.

That's because the federal road funds coming to Michigan are split among the Michigan Department of Transportation (MDOT), county road commissions and cities and villages. After deductions for special programs and "earmark" grants, current legislation and historical tradition set the division as follows:

75% = MDOT

25% = Divided between county road commissions, cities and villages statewide

That means by the time the 25 percent local portion of any increase in federal road funding is spread across the 83 county road agencies and 500-plus cities and villages in Michigan, no single agency receives a very substantial increase.

So, What Happens When There's Not Enough Money for Roads?

Road surfaces deteriorate and, in urban areas, roads become increasingly congested. This ultimately has a negative impact on both business and quality of life.

AND

Because the road agencies can't afford to spend enough in any community, the communities get frustrated and accuse the road agencies of spending all their money in other communities.

AND

Road agencies begin to fight among themselves for the scarce road dollars.

Doesn't all the New Growth in Michigan mean more Money for Roads?

Some Michigan counties have seen tremendous growth in recent years. These counties receive revenue from taxes associated with all the new growth. In some parts of the state, there has been continuous new development of office complexes; new commercial developments; tremendous new growth in the industrial sector; and explosive growth in residential development.



All this new development produces tax revenues in three areas:

1. Property taxes — from all the new buildings
2. Income taxes — from all the new jobs
3. Sales taxes — from all the commerce at the new commercial developments

How much of this tax revenue goes to either MDOT or the county road commission to address the traffic problems resulting from all this growth?

Except for the 14 Michigan counties with property tax millages dedicated specifically to roads, the county road commissions and MDOT get **NO revenue** from this new development. The 13 counties with road millages are: Allegan, Midland, Baraga, Ontonogan, Chippewa, Sanilac, Gladwin, St. Joseph, Houghton, Tuscola, Huron, Van Buren and Leelanau. Millage revenue in these 13 counties is spent on county roads but not state highways.

Part III:

Other Road-Related Issues **You May Hear About**

What about Using Property Taxes for Roads?

Though the largest source of road funding in Michigan is the state-collected gas tax, some local governmental agencies have already been forced to turn to the property tax for supplemental road funds.

In addition to the 13 counties with road millages, some townships and many cities and villages are already doing this (road commissions have no taxing authority). Why? Necessity, resulting from decades of inadequate road funding from the state.

The net result of these efforts is a shifting of the road funding burden partially onto local property taxes.

Are Property Taxes the Best Way to Pay for Roads?

Which is the most equitable way to raise money for roads, fuel taxes or property taxes? But there is an even more basic question implied in this question: Should road funding be based on:

A. The extent to which you use the roads;

OR

B. The value of your property?

Which method hits the elderly and those on fixed incomes the hardest?

The County Road Association of Michigan (CRAM) believes the fuel tax is the most equitable way to fund roads in Michigan, because:

A. The fuel tax is a “user” tax (the more you use the roads, the more you pay); and

B. Michigan has not exhausted the fuel tax as a funding mechanism.

Are Michigan Cities & Villages Currently Supplementing their State Road Funds?

Yes: Michigan's cities and villages already subsidize their streets. They discovered long ago that MTF funds are not adequate to address their road needs.

Consider:

Source of road funds for cities & villages

| | |
|---------------------------|---|
| Statewide average: | 60% state-collected road funds 40% other sources (including property taxes) |
|---------------------------|---|

This table shows that Michigan's cities and villages have already been forced to turn to sources other than the state-collected road funds for nearly half of their road funding needs. In some of these communities, dedicated property tax millages are already used for roads. In others, the community uses general fund monies for road maintenance.

As noted on the previous page, road commissions have no taxing authority. They cannot raise property taxes, and they have no general fund that could be used to supplement their state-collected revenues. Unless they receive contributions from townships, road commissions must operate with what they receive from the state (MTF), which, as in the case of the cities and villages, is inadequate to meet road needs.

What about the Diesel Tax?

Currently, Michigan charges the equivalent of 15 cents tax per gallon of diesel fuel, but 19 cents per gallon of gasoline.

According to MDOT, a recent Federal Highway Administration study estimates that trucks are responsible for 40 percent of the cost of building and repairing roads, but contribute only 15 percent of the funds needed for these activities.

In other words, **trucks are not paying their fair share** to build and maintain roads in Michigan.

CRAM supports raising the diesel tax to make it equal to the gas tax, so that truckers pay a fairer share of the cost of road maintenance.

For the last several years, a proposal has been discussed in Lansing to raise the diesel tax. CRAM feels if the diesel tax is increased, the revenues should be funneled through the MTF road-funding formula, as with most other state-collected road funding, so that all levels of roads in Michigan benefit equally.

A 4-cent diesel tax increase would generate approximately \$40 million statewide. Road Commissions would receive 39.1 percent of that, collectively, or about \$15.6 million. Thus, no individual road commission would see a large increase in funding from such an increase, but every little bit helps. Besides, raising this tax is the right thing to do.

Development Impact Fees

Over the years there have been several attempts to authorize certain governing bodies to levy fees on developers to generate revenue to cover the costs of road improvements necessitated by their developments. These fees, which are used in other parts of the country, are known as development impact fees.

CRAM has been involved in this discussion for more than a decade.

To date there has not been enough support in the state Legislature to enact the necessary laws to make development impact fees possible in Michigan.

So, What is Being Done?

Currently, two efforts are underway in Michigan to attempt to address the road funding crisis the state is facing. They are:

1. A vast consortium, known as the **Michigan Transportation Team (MTT)** has launched the “Drive MI” campaign, aimed at raising Michigan’s gas tax. CRAM is a member of this team and actively supports the effort. Other team members include the Michigan Municipal League, Michigan Townships Association, Michigan Chamber of Commerce, the International Brotherhood of Teamsters, the Michigan Farm Bureau, Michigan Public Transit Association, Michigan Retailers Association and many others.
2. A group of Southeast Michigan business leaders has launched **Businesses for Better Roads**, which is seeking to establish local funding options that would allow counties to raise money on their own to address road issues, whether it is congestion or the condition of existing roads. Recently, the group established a nine-county steering committee to lead this effort, including the most populous counties in the state. The effort is expected to be expanded statewide in the near future.

Easy Solutions

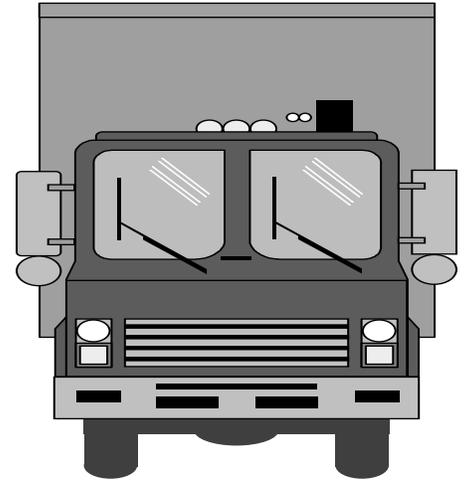
“There is always an easy solution to every human problem...

...neat, plausible and wrong.”

-H.L. Mencken, 1949

“Why not force truckers to reduce the weight they carry?”

It is true that heavy trucks do far more damage to the road surface than cars. It's also true that Michigan allows heavier trucks than most states (164,000 pounds vs. 80,000 pounds).



However, studies have indicated that road damage is related more to axle load than to gross weight. Michigan's axle load restrictions are comparable to most other states.

Additionally, if Michigan reduced the gross vehicle weight allowed, it is estimated there could be as many as 12,000 to 15,000 new trucks added to the roads.

CRAM's Position

CRAM believes that heavier trucks do far greater damage to the roads than cars and don't pay their fair share for road upkeep. Consequently, CRAM believes heavy trucks should pay a fairer share.

“Why not use toll roads?”

Below are seven reasons we do not use toll roads in Michigan. Perhaps the most notable are the first four.

1. Only freeways can be made toll roads.
2. Typically, tolls collected on toll roads are used to maintain the toll roads, not to maintain other roads.
3. Freeways represent 1 percent of Michigan's public road system. If all Michigan freeways became toll roads, 99 percent of Michigan's public road system would remain underfunded.
4. States with toll roads, such as Ohio and Pennsylvania, have a higher gas tax than Michigan to maintain their other roads.
5. Toll roads are especially effective for states with high pass-through traffic. Michigan is a peninsula state, with little pass-through traffic.
6. To avoid tolls, some motorists would drive on local roads, increasing the burden on those roads.
7. Retrofitting existing freeways to be toll roads could be expensive.

“Why not just build roads to European standards?”

It's true that in some European countries, roads are built to higher standards and last longer than the roads built in the United States.

But, they also cost considerably more.

What is the cost difference?

It is estimated that building roads to the European standard would increase project costs by 50 to 75 percent. That means that if Michigan road agencies opted to build roads to European standards, they would only be able to reconstruct half as many roads, meaning the rest of our roads would deteriorate to an even worse condition before they could be repaired.

Additionally, it is interesting to note that the cost of gas in Europe is more than \$5 per gallon — mainly because fuel taxes there are much higher.